

Message Text

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ACTION SCI-06

INFO OCT-01 ARA-16 ISO-00 ACDA-19 CIAE-00 INR-11 IO-14

L-03 NSAE-00 NSC-07 RSC-01 AEC-11 AECE-00 SSO-00

NSCE-00 SS-20 INRE-00 PM-07 FEA-02 TRSE-00 PA-04

PRS-01 USIE-00 DRC-01 EB-11 /135 W

----- 127924

O R 072145Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 4973

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 5972

E. O. 11652: N/A

TAGS: TECH, ENRG, BR

SUBJECT: COMPLETION OF AEC ENRICHMENT CONTRACTING

REF: BRASILIA 5929

1. SUMMARY: FURNAS PRESIDENT MAGALHAES CALLED ON AMBASSADOR TO CONVEY COMPANY'S (AND BOG'S) SERIOUS CONCERN OVER "CONDITIONAL" AEC CONTRACTS AND TO EXPLAIN POSITION OF GOB IN LIGHT OF CIRCUMSTANCES SURROUNDING BRAZILIAN SIGNATURE OF CONTRACTS. HE INDICATED ENRICHED URANIUM PROGRAM RESTS ON RELIABILITY OF US SUPPLY, AND AEC DECISION, IF IT WEAKENS EARLIER COMMITMENT, COULD CAUSE SERIOUSLY ADVERSE REPERCUSSIONS, INCLUDING POLITICAL ONES. ACTION REQUESTED: EMBASSY REPEATS REFTEL REQUEST FOR EXPLANATION FOR GOB AND ASKS DEPARTMENT/AEC TO PROVIDE WRITTEN ASSURANCES TO GOB THAT FURNAS CONTRACTS WILL BE HONORED. END SUMMARY.

2. AT URGENT REQUEST OF MINISTER OF MINES AND ENERGY (PARA 7 REFTEL) AMBASSADOR, ON AUGUST 7, SAW FURNAS PRESIDENT, LUIZ CLAUDIO DE MAGALHAES, AND FURNAS CONTRACT NEGOTIATOR, DAVID SIMON, REGARDING AEC ANNOUNCEMENT AND ALLOCATION OF CONDITIONAL LIMITED OFFICIAL USE
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CONTRACTS FOR BRAZIL. FURNAS OFFICIALS SAID PURPOSE OF CALL WAS TO CONVEY PERSONALLY TO AMBASSADOR THEIR GREAT CONCERN, DISMAY AND PERPLEXITY OVER AEC DECISION. THEY REVIEWED HISTORY OF NEGOTIATIONS WITH AEC AND REPEATED EMPHATICALLY POINTS

REPORTED REFTTEL THAT FURNAS AND GOB HAD FIRM UNDERSTANDING WHEN CONTRACTS WERE SIGNED BY BRAZILIAN SIDE THAT AEC SERVICES WERE ASSURED WITHOUT RESERVATIONS OR CONDITIONS.

3. MAGALHAES AND SIMON REVIEWED STEP-BY-STEP DEALINGS WITH AEC PRIOR TO JUNE 19 SIGNING WHEN BOTH WERE IN WASHINGTON. THEY SAID THAT ON JUNE 11, AEC DIVISION OF INTERNATIONAL PROGRAMS REQUESTED FURTHER DATA AND THAT ON JUNE 12 SIMON MET WITH AEC AND ALL REMAINING ITEMS ON CONTRACTS WERE RESOLVED. ON THAT DATE, ACCORDING TO SIMON, AEC COULD NOT SET DATE FOR SIGNING OF CONTRACTS BECAUSE BOARD HAD NOT YET ACTED ON AMENDMENT TO US/BRAZIL BILATERAL AGREEMENT, AN AMENDMENT PROPOSED BY AEC AND ACCEPTED BY BRAZILIAN SIDE. ON JUNE 14, AEC ADVISED BRAZILIANS, THROUGH THEIR CONSULTANT, NUS, THAT CONTRACTS WOULD BE SIGNED ON MORNING OF JUNE 19. ON JUNE 19, MAGALHAES AND SIMON MET WITH AEC OFFICIALS TO SIGN CONTRACTS, BUT WERE INFORMED BY EMBARRASSED INTERNATIONAL PROGRAMS DIRECTOR FRIEDMAN THAT BOARD HAD NOT YET ACTED UPON AGREEMENT AMENDMENT. SIMON SAID THAT AT MEETING, FRIEDMAN SUGGESTED THAT BRAZIL SIGN CONTRACTS IN ANTICIPATION OF BOARD ACTION, EXPECTED AT ANY MOMENT. THEY DID SO IN GOOD FAITH. (FIRST INSTALLMENT OF ADVANCE PAYMENT IN THE AMOUNT OF \$2,640,000 HAD ALREADY BEEN DEPOSITED IN RIGGS BANK IN FAVOR AEC.) BOTH MAGALHAES AND SIMON STRESSED TO AMBASSADOR THAT NEITHER AT JUNE 19 MEETING AND SIGNING NOR AT ANY OTHER TIME WERE THERE ANY INDICATIONS BY AEC REPRESENTATIVES OF ANY IMPEDIMENTS TO FULFILLMENT OF CONTRACTS AND THAT ONLY DELAY MENTIONED WAS ROUTINE FORMALITY OF AEC BOARD MEETING TO APPROVE AGREEMENT AMENDMENT. FURNAS OFFICIALS ALSO STATED THAT AT NO TIME WAS THERE ANY MENTION OF ANY PROBLEM CONNECTED WITH QUESTION OF PLUTONIUM RECYCLE OR ANY INDICATION THAT CIRCUMSTANCES EXISTED THAT WOULD PREVENT AEC FROM SIGNING.

4. BRAZILIAN OFFICIALS TOLD AMBASSADOR THAT, UPON RETURN TO BRAZIL IN JUNE, THEY BELIEVED THAT THEY WERE CARRYING ABSOLUTE ASSURANCES FROM AEC FOR PROVISION OF ENRICHED URANIUM FOR ANGRA II AND III REACTORS. THEY SAID THAT SUCH ASSURANCE OF SUPPLY HAS BEEN A BASIC ELEMENT IN SUPPORT OF ARGUMENTS BY EN-LIMITED OFFICIAL USE
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RICHEd URANIUM PROPONENTS WITHIN GOB. OFFICIALS ADDED THAT WHEN NEWS BECOMES PUBLIC WITHIN NEXT FEW DAYS THAT BRAZILIAN CONTRACTS ARE "CONDITIONAL", PLUS LIKELY INTRPRETATION THAT BRAZIL WAS GIVEN A BAD SHUFFLE IN ALLOCATIONS, THIS INFORMATION WILL BE SEIZED UPON BY NATURAL URANIUM PROPONENTS AS EVIDENCE OF UNRELIABILITY OF THE US AS NUCLEAR FUEL SOURCE AND AS MEANS TO DISCREDIT GOB'S ENRICHED URANIUM POLICY.

5. AMBASSADOR RESPONDED BY EMPHASIZING STRONG AND CLEAR ASSURANCES CONTAINED IN PRESIDENTIAL STATEMENT THAT CONDITIONAL CONTRACTS WILL BE FULFILLED AND OBSERVING THAT DISTINCTION BETWEEN STANDARD AND CONDITIONAL CONTRACTS APPEARED TO BE A LEGAL ONE

BECAUSE OF REGULATORY PROCESS REQUIRED FOR PLUTONIUM RECYCLE APPROVAL. FURNAS OFFICIALS ASKED HOW SUCH ASSURANCES COULD BE GIVEN IF ADDITIONAL PRODUCTION DEPENDS ON PLUTONIUM RECYCLE WHICH MAY NOT BE APPROVED. THEY MADE FURTHER POINT THAT, IN LIGHT OF CIRCUMSTANCES ACCOMPANYING BRAZILIAN SIGNING IN JUNE, THEY FELT BRAZIL SHOULD HAVE RECEIVED STANDARD CONTRACTS IN ANY CASE.

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6. COMMENT: IMPLICATION WAS ALSO CLEAR THAT DECISION CALLS INTO QUESTION GOOD FAITH OF THE AEC WHEN IT INVITED BRAZILIANS TO SIGN CONTRACTS, ACCEPTED ADVANCE PAYMENTS, AND CLEARLY LEFT THEM WITH THE UNDERSTANDING THAT A FIRM COMMITMENT HAD BEEN MADE. IF BRAZILIAN ACCOUNT IS EVEN REASONABLY ACCURATE AND IF AEC ALLOCATIONS ARE INDEED A BACKING AWAY FROM THE COMMITMENT MADE TO BRAZIL ON JUNE 19, THEN THE QUESTION OF US GOOD FAITH AND RELIABILITY DOES ARISE. STRONG POSITION TAKEN BY FURNAS AND MINISTRY OF MINES AND ENERGY IN FAVOR OF ENRICHED URANIUM REACTORS WILL BE SERIOUSLY UNDERMINED AND THESE OFFICIALS WILL CERTAINLY BE CALLED UPON AT HIGHEST LEVELS OF GOB TO DEFEND THOSE POSITIONS AND JUSTIFICATION FOR CONTINUED CLOSE ALIGNMENT WITH US SUPPLY.

7. AMBASSADOR'S FURTHER COMMENT: I WOULD LIKE TO CONVEY IN STRONG TERMS TO BOTH DEPARTMENT AND AEC THAT, BECAUSE OF THEIR INTERPRETATION OF THE CIRCUMSTANCES OF THE BRAZILIAN SIGNING OF THESE CONTRACTS, THE DISTRESS, CONCERN, AND INDIGNATION REGISTERED BY BRAZILIAN OFFICIALS OVER CONDITIONAL NATURE OF CONTRACTS IS REAL AND DEEP. THE POSSIBILITY THAT GOB WILL NOT KNOW FOR SEVERAL MONTHS WHETHER OR NOT LIMITED OFFICIAL USE

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IT IS TRULY ASSURED OF ENRICHED URANIUM SUPPLY WOULD BE A SERIOUS BLOW TO OUR EFFORTS IN BRAZIL IN THE NUCLEAR ENERGY FIELD AND TO THOSE GOB OFFICIALS WHO HAVE STRONGLY ADVOCATED A NUCLEAR PROGRAM ALIGNED TO THE US. IN THE STRENUOUS DEBATE GOING ON OVER NUCLEAR FUEL SUPPLY, THEIR REPUTATIONS ARE ON THE LINE. IF DISTINCTION BETWEEN STANDARD AND CONDITIONAL CONTRACT IS ONLY A TECHNICAL ONE (AS I HOPE IT IS) AND THE PRODUCTION CAPACITY TO BACK UP ASSURANCES IN PRESIDENTIAL STATEMENT IS AVAILABLE, WE CAN, BY FURNISHING ADDITIONAL DETAILS ON AEC POLICY, REASSURE GOB (INCLUDING MINISTER OF MINES AND ENERGY WHO HAS TO REPORT TO THE PRESIDENT ON THIS) THAT THERE IS NO PROBLEM. IF, HOWEVER, THE AEC DECISION DOES REPRESENT A CHANGE IN THE COMMITMENT GIVEN IN JUNE AND IF THE GOB NO LONGER HAS ABSOLUTE ASSURANCE OF SUPPLY, I STRONGLY URGE WE FIND A MEANS TO GIVE BRAZIL THE ASSURANCES IT THOUGHT IT HAD IN JUNE. I WOULD HOPE THAT SUCH ASSURANCES CAN BE CONVEYED BY AEC, EITHER IN WASHINGTON OR THROUGH THIS EMBASSY, IN WRITTEN FORM TO PUT TO REST THESE DOUBTS ABOUT US COMMITMENTS ON ENRICHED URANIUM SUPPLY. I AM HAVING DINNER WITH MINISTER OF MINES AND ENERGY ON FRIDAY, AUGUST 9, AND I WOULD WANT TO BE ABLE TO GIVE HIM FIRM WORD THAT SUCH ASSURANCES HAVE BEEN GIVEN OR, AT LEAST, WILL BE VERY SOON.
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